Plante & Moran, PLLC
Suite 400
1000 Oakbrook Drive
Ann Arbor, MI 48104
Tel: 734.665.9494
Fax: 734.665.0664
plantemoran.com

October 26, 2017

To the Honorable Mayor,
Members of the City Council, and Management
City of Farmington, Michigan

We have audited the financial statements of City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2017 and have issued our report thereon dated October 26, 2017. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the honorable mayor, members of the City Council, and management of the City.

Section II presents legislative and informational items that could have an effect on the City.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the honorable mayor, City Council, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

David H. Helisek

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 10, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

Accounting Changes

As described in Note 11, the City adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Adopting this statement required disclosures regarding the City's other postemployment benefit plan. The City also adopted GASB Statement No. 77, *Tax Abatement Disclosures*, but this did not have a significant impact on the City.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Section I - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimates affecting the financial statements include the liability and expense associated with pension benefits, the asset associated with other postemployment benefits (OPEB) funding, and unbilled water and sewer charges. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the pension liability and expense is based on discount rates, rate of return, and other assumptions, which are used by an actuary to calculate the total pension liability. While the actuary uses assumptions to calculate the total pension liability, it is management's responsibility to assess whether the assumptions made are reasonable. We evaluated the key assumptions used to calculate the total pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the long-term cost of retiree healthcare benefits is based on an actuarial valuation in accordance with GASB Statement No. 45. Management estimates the unbilled water and sewer usage at year end using subsequent billing.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 9 - Agent Defined Benefit Pension Plan Description, Note 10 - Postemployment Benefits, and Note 11 - OPEB Plan.

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2017.

Section I - Required Communications with Those Charged with Governance (Continued)

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Legislative and Informational Items

Legacy Costs

Legacy costs and the challenge of funding them continues to be a topic of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree health care). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans,* addresses reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

The City adopted GASB Statement No. 74 during the current year and will adopt GASB Statement No. 75 during the 2018 fiscal year. After adoption of GASB 75, the City will recognize on the face of the financial statements its net OPEB liability. A proforma of how the reporting of the GASB 75 liability is expected to impact the City's government-wide net position is shown below:

	As Currently Reported	Unfunded Health Care
Net position:		
Net investment in capital assets	$ 27,723,260	$ 27,723,260
Restricted	1,428,244	1,428,244
Unrestricted	70,568	(5,933,474)
Total net position	$ 29,222,072	$ 23,218,030

This pro-forma indicates that City will likely still have a positive total net position, but a significant negative unrestricted net position. This generally means that the City has successfully funded the total cost of government services provided to date. The fact that the unrestricted portion is negative indicates that legacy costs earned to date have not been funded, but this is offset by the capital assets that have been funded in advance of their use. When viewed from a combined perspective, the residents have paid the cost of services received in total.

The accounting entries to implement GASB 75 and allocate these costs to the various proprietary funds and governmental functions is complex. We are happy to work with the City and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage city personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

Revenue Sharing

The FY 2018 budget recommendation includes $1.27 billion for revenue sharing broken down as follows:

Description	Final 2017 Budget	Final 2018 Budget
Constitutionally required payments	$757.9 M	$798.1 M
CVTRS	243.0 M	243.0 M
CVTRS - One-time payments	5.8 M	5.8 M
County revenue sharing	174.2 M	176.9 M
County incentive program	43.0 M	43.2 M
Fiscally Distressed Community Grants	5.0 M	5.0 M
Supplemental CVTRS	0 M	6.2 M
Total	**$1,228.9 M**	**$1,278.2 M**

After a decline in the constitutionally required payments from 2016 to 2017 as a result of sales tax declines, local units will experience an increase in 2018 as the constitutional payment budget has been increased by $40.3 million. The new budget for 2018 anticipates an increase of 5.3 percent. The FY 2018 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation which was established in FY 2015, and that number remains flat at $243 million. Each community's overall increase will vary as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2018, qualified local units will once again need to comply with the same best practices as they did last year, as follows:

- A citizen's guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

The State has budgeted $6.2 million for "supplemental CVTRS" payments in FY 2018. Any city, village, or township receiving CVTRS payments will receive an additional payment equal to its population multiplied by $.081198 (rounded to the nearest dollar).

The "one-time" additional CVTRS payments that were reinstated in the 2017 budget are also part of the 2018 budget.

Section II - Legislative and Informational Items (Continued)

Transformational Brownfields (PA 46-50 of 2017)

This reintroduced legislation became Public Acts 46-50 of 2017 with immediate effect. Public Act 46 of 2017 has created a new type of Brownfield, while Public Acts 47-50 of 2017 amend prior acts for this change. The acts grant the ability to create “Transformational Brownfields” allowing the capture of income taxes and exemption of sales and use tax from “certain” personal property. In order to qualify, projects must obtain approval from the local Brownfield Redevelopment Authority, the local governing body, and the Michigan Strategic Fund (MSF).

Projects should have a transformational impact on local economic development and community revitalization. Each project must meet the definition of a “large-scale investment”. This definition varies based upon population. The minimum is $15 million for communities under 25,000, but increases based upon population (for example, the City of Detroit, at over 600,000 in population, would have a minimum of $500 million).

During the construction, renovation, or improvement phases, projects could capture up to 50 percent of income taxes (state and city, if applicable) related to the wages paid for those physically present and working on the project. Upon completion, the project would capture up to 50 percent of income taxes related to those domiciled within the property. The limit for total tax capture over the life of the bill is $1 billion with a maximum of $40 million per year, and a further limit of five projects in any one community prior to December 31, 2022. In addition, in one calendar year the MSF may not approve more than five transformational brownfield plans (with the exception of if less than five are approved in a year, the unused quota can carry over to the next calendar year). Tax captures per parcel are limited to 20 years.

Public Act 47 amends the Income Tax Act to allow for the income tax captures noted above. Public Act 48 amends the General Sales Tax Act to exempt from sales tax the sale of goods for use in eligible projects. Public Act 49 amends the Use Tax Act and would not apply to goods used in the project. Public Act 50 amends the Michigan Renaissance Zone Act so that income tax exemptions would not apply.

F65 Online Filing Now Required

Effective August 1, local units are required to submit the F65 using the electronic online format on the State of Michigan website. The State is no longer accepting excel or hard copy submissions. This is in compliance with section 141.424, Section 4 (3) of Public Act 2 of 1968: *The state treasurer shall prescribe the forms to be used by the local units for preparation of the financial reports.* This effort is an attempt to reduce errors in submission as well has house all the data in one place. Upon submission, you may receive error messages that will need to be addressed. Local units will now file the F65, audit reports, and the Qualifying Statements in the same location using only one login (user ID and password). The form can be filed at the following link: https://treas-secure.state.mi.us/LAFDeform/TL41W71.aspx

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts and requires local units of government to comply with the changes beginning with June 30, 2018 year ends. Local units should begin evaluating this new chart of accounts to determine what changes will be necessary and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution to the extent needed, this could be a possible solution for some. The changes in the chart of accounts are not voluminous, but will require some review. The new chart of accounts can be found at the following link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf

Proposed Legislation

Dark Stores (HB 4397) - This bill was recently introduced in the House and referred to the Committee on Tax Policy. This legislation would require Tax Tribunal members to make their own independent determination and apply standard appraisal procedures when reaching their findings of facts and conclusions of law in larger property tax cases. In recent years, the MTT has used the "dark store" assessing theory even for fully functional big box retail stores. The result is much lower assessments since the property is compared to the sales of vacant structures that oftentimes have deed restrictions severely limiting their use.

Dark Stores (SB 578) - Senate Bill 578 has been introduced in response to the Dark Stores issue that has been occurring in Michigan. If passed, it would amend PA 136 of 1973 the “Tax Tribunal Act” by amending section 3 (MCL 205.703), as amended by 2008 PA 125, and by adding section 38. The bill would require that when a dispute regarding the true cash value of real or personal property is brought forth, the following must be done by the Michigan Tax Tribunal:

- Review comparable properties in the market that have similar “highest and best use” as the property under review
- Must separately state their conclusions of law and fact for those properties

Comparable properties should be determined as follows:

- Ensure that all information gathered on each property is verified for completeness and is accurate with regard to all noted disclosures, covenants on use of the property, private restrictions, the impact of such covenants and restrictions, sale terms, and the financing method
- If one of the comparable properties identified has a private restriction or covenant in connection with the sale or rental of the property which causes the property to have a “substantially impaired highest and best use” as compared to the property whose assessment is under review OR if the private restriction or covenant does not assist in economic development of the property, does not provide a continuing benefit to the property, or if the chance of vacancy or inactivity on the property is “materially” increased, such property should be excluded as a comparable.

Overall, the intent of the bill is to eliminate properties that are vacant (dark stores), inactive, or have certain restrictions or covenants from being used as a comparable in an assessment dispute.